

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer



MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: May 20, 2003

SUBJECT: Fiscal Impact Statement: "Certified Capital Companies Act of 2003"

REFERENCE: Bill 15-020

Conclusion

Funds are sufficient in the District of Columbia's FY 2003 budget and in the proposed FY 2004 budget but are not sufficient in the proposed FY 2005 through FY 2007 financial plan to implement the "Certified Capital Companies Act of 2003." **The proposed legislation would not have an impact on FY 2003 and FY 2004, but would result in foregone tax revenue totaling \$15.63 million for the period FY 2005 through FY 2007.**

Background

The "Certified Capital Companies Act of 2003" authorizes the Commissioner of the District of Columbia Department of Insurance and Securities Regulation (DISR) to certify capital companies that will invest start-up capital in qualified start-up businesses in the District. Companies applying for certification will pay DISR a non-refundable \$15,000 application fee. Each certified capital company would then pay an annual certification fee of \$10,000.

To encourage the creation of certified capital companies, the proposed legislation provides an insurance premium tax credit to insurance companies that make qualified investments in certified capital companies. Insurance companies would be eligible to receive an insurance premium tax credit equal to 100 percent of their total investment in the certified capital companies, with a maximum of 12.5 percent of the premium tax

credit available each year. The credit may not exceed the insurance company's premium tax liability in any one year, but the credit may be carried forward indefinitely. The credits also may be sold or transferred. The purpose of the proposed legislation is to stimulate the growth of small and start-up businesses.

Financial Plan Impact

The proposed legislation allows for a maximum of \$50 million of insurance premium tax credits over the life of the program and a maximum \$6.25 million of the tax credits per year. Because there is a two-year delay in the draw-down of the credits, there is no fiscal impact for FY 2003 and FY 2004. Insurance companies can begin taking the tax credits in calendar year 2005 by using up to one-half of the annual amount of premium tax credits to offset their required June 1, 2005 payment. The following table shows the loss in General Fund revenue that would result from implementation of the proposed legislation:

FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	TOTAL
\$0	\$0	\$3.13 M	\$6.25 M	\$6.25 M	\$15.63 M

The application fees and re-certification fees collected by DISR will be considered O-type revenue and will be used to support operation of the program. DISR also expects that it will periodically need to audit the qualified businesses to ensure they are meeting the requirements prescribed in the proposed legislation, but the agency anticipates it can carry out such audits using existing resources.